Company Profile

Hecla Mining Company is the leading domestic producer of newly mined silver, and a major supplier of premium ball clay, gold, and scoria. In 1985, Hecla produced 7,925,824 ounces of silver, 41,710 ounces of gold, and over 50% of the domestic requirement for specialty ball clay.

The Company's major precious metals holdings are the Lucky Friday silver-lead mine in the famous Coeur d'Alene District of Idaho, the Republic gold-silver mine in Washington state, and the Escalante silver mine in southwestern Utah. Additionally, Hecla holds interests in two other Coeur d'Alene District silver mines, the Coeur and the Galena. In 1985, the Lucky Friday mine produced 4,740,971 ounces of silver, regaining its position as America's largest silver mine.

An aggressive exploration effort has been maintained to expand the mineral reserves of existing operations and to evaluate new precious metals and industrial minerals properties throughout the United States and Canada.

Industrial minerals operations, acquired in 1984, are located in Kentucky, Tennessee, Mississippi, Colorado and New Mexico.

Silver continues to be the largest contributor to Company revenue, amounting to 53.5% of sales in 1985. Ball clay, with 21.3%, was second in importance followed by gold at 14.6%, and scoria at 6.3%.

OUR PEOPLE....

For nearly 100 years Hecla's people have worked together to mold the Company into what it is today.... "America's Premier Silver Producer."

In its infancy, Hecla employed only a handful of spirited men using mostly hand labor and a good measure of sweat to extract the rich ores from the rugged hills of northern Idaho. Now we number nearly 1000 strong, working in 13 states from California to Tennessee and from Alaska to New Mexico.

We are proud of our people... for their hard work in the past and commitment to the future.

Hecla's roots are firmly grounded in the pioneers who answered the gold rush call of the Coeur d'Alenes in the late 1800's.

This photograph, taken around 1905, depicts a group of early-day miners on the 900 level of the original Hecla mine near Burke, Idaho. We would like to identify them.

If you can provide a name or names, we will present you with a one-ounce Hecla silver medallion. Please let us hear from you.

Contents

Financial Highlights

	1985	1984
Revenue	**$ 82,579,000**	$113,750,000
Net income (loss)	**$ (4,224,000)**	$ 12,092,000
Earnings (loss) per share	**$ (0.16)**	$ 0.45
Silver production (ounces)	**7,925,824**	8,445,412
Shareholders of record (at year-end)	**20,708**	21,037
Employees (at year-end)	**945**	1,055

Annual Meeting

The Annual Meeting of Shareholders will be held at the Company headquarters in Coeur d'Alene, Idaho, Friday, May 9, 1986, at 10 a.m., Pacific Daylight Time.

To Our Shareholders:

The year 1985 was a year of consolidation, belt-tightening, and preparation for the future. Although the national economy was strong and improving, the prices of the metals we produce remained at depressed levels, well below those of 1984. As a result, despite full production and significant reductions in costs, we reported a loss for the year.

The loss for 1985 was $4,224,000, or $0.16 per share. This compares with earnings in 1984 of $12,092,000, or $0.45 per share. Actually, the numbers for both years are distorted by unusual items. In 1985 we completed termination of the Lakeshore copper partnership at a gain of $4,694,000. Without this one-time profit, the 1985 loss would have been $8,918,000. In 1984 we sold our interest in the Sunshine silver mine. We also wrote off the value of the Victoria mine which partially offset the gain made from the Sunshine mine sale. Without these transactions, we would have reported a loss in 1984 of $3,914,000. Although the news is not good, no matter how you look at it, ***it is encouraging to note that the cash flow from our normal business of mining, processing, and marketing solid minerals was positive*** in both years. Indeed, overall cash flow before dividends, which is the difference between dollars received and dollars spent without consideration for bookkeeping entries such as depreciation expense, was positive in 1985. ***This has allowed us to maintain a strong balance sheet.***

On the metal mining side of our business, ***the Republic Gold mine was the largest contributor to corporate earnings in 1985.*** Average ore grade for the year increased to 0.69 ounces of gold and 2.0 ounces of silver per ton, with a total production of 39,000 ounces of gold and 101,000 ounces of silver. Continued exploration there appears to have substantiated at least 300,000 tons of additional ore containing about 0.8 ounces of gold per ton, with the potential for additional reserves.

Once again more silver was mined for Hecla's account than for that of any other domestic producer, with total production in 1985 of 7,925,824 ounces. The Lucky Friday mine regained its position as the largest silver producer in the nation. Unfortunately, neither the Lucky Friday mine nor the Escalante mine was profitable this year, although both generated a significant positive cash flow from operations.

As we anticipated, the industrial minerals segment of our business has proven to be of vital importance in these times of depressed metal prices. Our subsidiaries, Kentucky-Tennessee Clay Company and Colorado Aggregate Company, were the second and third largest contributors to corporate earnings in 1985, despite increased competitive pressures which resulted in a slight reduction in earnings from last year.

In addition to selling our Sunshine mine interest, ***we have disposed of a number of unprofitable operations or interests.*** Among them were the Leadville mine in Colorado, the Oriental mine in California and the Golden Eagle mine in Alaska. Coupled with the savings resulting from the consolidation of administrative activities, these actions have helped to limit the loss in 1985.

We are preparing for the future by maintaining a strong exploration program. Our efforts continue to be focused strongly in the vicinity of existing operations, but a large portion of our effort is also dedicated to some far-ranging searches. We intend to continue this program in 1986, and have budgeted $7,000,000 for this purpose.

Arthur Brown (left), Wm. A. Griffith.

We are proceeding with our program to consolidate the corporate technical and administrative staffs under one roof in a new corporate headquarters building in Coeur d'Alene, Idaho. We are convinced the move, which is scheduled for April 1986, will have a beneficial impact on the Company for many years to come.

Your Board of Directors continued its dividend policy by declaring a $0.05 per share dividend during each quarter of 1985. The Board also made important changes in staff assignments during the year by naming Mr. Arthur Brown to the position of Executive Vice President and Mr. William J. Grismer to the position of Senior Vice President. These changes were in recognition of outstanding performance and the assumption of broader responsibilities for the operation of your company. It is also important to recognize the dedication and support of our people whose efforts have enabled us to survive during these difficult times.

We remain optimistic about the future of Hecla Mining Company. We believe precious metals are currently under-priced and that they will improve in the not too distant future. We believe we have observed the elimination of some of the factors which tend to depress precious metal markets and the beginning of some which will have positive influences. Our business strategy is based on these beliefs. ***We continue to emphasize exploration for new precious metal ore bodies, efficiency of existing operations, and maintenance of a strong balance sheet with the intent of remaining the premier domestic silver producer.*** We are also pleased with Hecla's diversification into industrial minerals and intend to expand this part of our business. We are confident that this plan is the best way to serve the outstanding group of people who are our shareholders, employees, and customers.

Wm. A. Griffith
Chairman, President and
Chief Executive Officer

Arthur Brown
Executive Vice President

Operations/ Metals

Silver and gold prices remained depressed in 1985, adversely affecting the profitability of precious metals operations. Both the Lucky Friday and Escalante mines produced at planned capacity throughout the year. Despite aggressive cost-cutting efforts, neither property was able to operate at a profit, although both generated positive cash flows from operations.

The Republic Unit in Washington was the leading contributor to corporate earnings in 1985. Gold production was up significantly, and a very encouraging new ore discovery is being developed.

Lucky Friday Unit

Silver production at the Lucky Friday Unit in 1985 was 4,740,971 ounces, placing it first among domestic silver mines. A record 276,817 tons of ore was milled, nearly 20,000 tons more than the previous high set in 1984.

Operating efficiency continued to improve, due in part to recent major investments in upgrading the physical plant. The new Silver Shaft continued to perform well, and last year's improvements to the pumping system, cooling plant and mill helped contribute to uninterrupted operations during 1985. ***Labor productivity increased 20% during the year,*** and operating costs, on a per-ton basis, were lower than comparable costs in 1984.

Good labor relations prevailed throughout the year. Improved productivity at the mine enabled the total work force to be reduced, mostly through normal attrition.

Testing of a new mechanized mining method developed by Hecla's Mining Research staff was begun in 1985. If successful, this project will contribute to further improvements in the efficiency and safety of the mine.

Exploration drilling on the properties of Allied Silver-Lead Company was suspended in mid-July due to a disagreement in interpreting the contract. These differences were resolved late in the year and drilling was resumed on the 5100 level of the mine.

Silver Shaft hoistman, Chuck Assels, hoists ore and moves men and supplies between the surface and the bottom levels of the Lucky Friday mine.

Craig Johnson (left) and his partner Jerry Walker set up to drill on the vein 4900 feet underground at the Lucky Friday.

Escalante Unit
The Escalante Unit in southwest Utah produced 2,438,978 ounces of silver in 1985, up 203,197 ounces from 1984. Ore grade averaged 10.15 ounces per ton, 6.8% above 1984, and mill recoveries improved slightly.

Ore production increased by 10,000 tons in 1985 despite a labor force reduction of 8%, and operating costs on a per-ton bases were reduced.

Exploration and development work at the mine continued throughout the year. Additional ore has been developed on the southerly extension of the vein and recent core drilling has indicated the possibility of another vein extending north of the present mine boundaries. Further work is planned for 1986.

Brad Barlow, head powderman, was among the first to begin work at the Escalante mine in 1980. His job requires expert loading of the 6½ inch underground blast holes with primer and explosives. The area will be evacuated, the charge set off and a 100-foot by 15-foot section of ore will be broken for haulage to the surface.

Republic Unit
A considerable increase in gold production at Republic marked the highlight of 1985 in metal operations.

Gold content improved to an average of 0.69 ounces per ton compared to 0.39 ounces per ton in 1984. ***Total gold production was 39,192 ounces, up 72% from the 22,757 ounces produced in 1984.*** Silver production increased to 101,521 ounces, up from 80,967 ounces in 1984.

Drilling results in the Golden Promise Area of the mine indicate at least 300,000 tons of new ore containing about 0.8 ounces of gold per ton. Exploration and development work continues to further define and expand these findings.

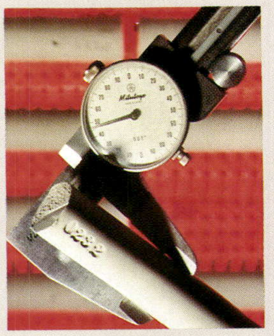
Glen Booher and the refinery crew at Republic cast nearly 40,000 ounces of gold in 1985.

Galena Unit
The Galena Unit, in which Hecla has a 12½% interest, is owned by Callahan Mining Corporation and operated by ASARCO Incorporated. It is one of the lowest-cost underground mining operations in the Coeur d'Alene District, and the third largest domestic silver mine in 1985. Tons of ore milled and ounces of silver produced declined slightly in 1985.

Coeur Unit
Silver production at the Coeur Unit, another of the low-cost producers in the U.S., was slightly improved in 1985. ASARCO operates the Coeur Unit under a long-term lease from Coeur d'Alene Mines Corporation, and Hecla has a 5% participation in all costs and proceeds. In 1985, the Coeur mine ranked as the fifth largest U.S. silver producer.

Operations/ Industrial Minerals

Kentucky-Tennessee Clay Company
In 1985, Kentucky-Tennessee Clay shipped over 400,000 tons of specialty ball clay products throughout the United States, Canada and Mexico, and to other export markets worldwide. ***The company supplies about 50% of the United States market for premium ball clay.***



Prior to being broken under controlled stress, an extruded test bar is precisely measured at the Gleason, Tennessee, quality control lab.

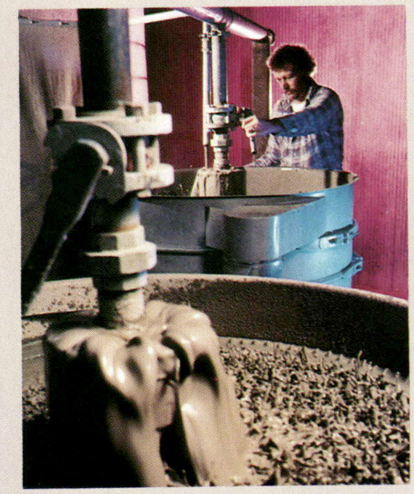
The term "ball clay" is derived from an early custom in the United Kingdom of digging and rolling certain clays into balls for shipment. Ball clay is of sedimentary origin and consists of several basic clay minerals along with a slight amount of organic content. This combination of materials gives ball clay its unique character and makes it highly regarded in the ceramics industry.

The Company's industrial minerals operations continued to provide diversity to the organization and generate income not subject to the volatility of precious metals markets. In fact, Kentucky-Tennessee Clay Company and Colorado Aggregate Company were the second and third largest contributors to corporate earnings in 1985.

Ball clay and volcanic scoria products go to broadly diversified industrial and consumer markets seeking superior quality raw materials.

Kentucky-Tennessee Clay mines and processes some 30 different grades of specialty ball clays at several locations in western Kentucky, Tennessee, and northwest Mississippi. The company has sufficient reserves of various grades of clay to last in excess of 20 years at the current rate of production.

After nearly 60 years of service to the clay and ceramics industry, Kentucky-Tennessee Clay has developed a substantial reputation as a reliable source of high-quality raw materials.



Slurry plant operator, Terry McKinney, screens clay to remove coarse particles before loading into tank cars for shipment from the Gleason, Tennessee, plant. Terry is one of several second generation employees. His father, J. W. McKinney, retired from Kentucky-Tennessee Clay in 1984 after 35 years of service.

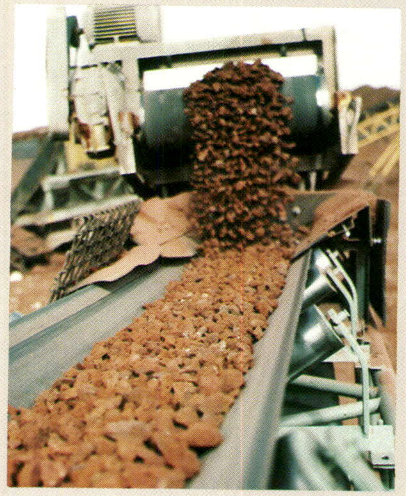
Carol Chapman, invoicing clerk at the main office near Mayfield, Kentucky, enters sales analysis, cost control, accounts receivable and other financial data into the company's computer system.

Robert Lawson operates a bagging machine at the Mayfield plant. Airfloated clay, milled to the consistency of flour, is packaged into 50-pound bags for shipment by truck or rail car.

Colorado Aggregate Company of New Mexico

Colorado Aggregate Company mines volcanic scoria from properties located in northern New Mexico and southern Colorado. Scoria is processed and packaged at two Colorado facilities, and is shipped to both domestic and export markets.

Volcanic scoria is a lightweight clinker-like material produced during the volcanic eruption process as magma is thrust up and cooled to form cinder cones. These cones occur frequently in the geological environment but are uniquely typed by density, texture and color, which ranges from pink through deep red to black. Colorado Aggregate Company produces two primary products, decorative landscape gravel and briquettes for gas-fired barbecue grills. ***Both of these products share premium recognition in their respective markets, reflecting the company's 20 years of experience in developing and maintaining its market position.***



Landscape scoria is classified and packaged at plants in Blanca and Mesita, Colorado.

Colorado Aggregate Company currently has a 10-year reserve at the New Mexico location and in excess of a 20-year reserve at the Colorado location based on current production rates.

Sam Santisteven (left), loader operator, and Ed Quiller, mine foreman, discuss mining plans at Colorado Aggregate's main pit near Mesita, Colorado. Volcanic scoria is hauled to a nearby crushing plant for processing and packaging. Scoria from the main pit is used mostly for gas barbeque briquettes. Another mine, at San Antonio Mountain in New Mexico, produces landscape quality "flower rock" as well as briquettes.

Exploration

Hecla continued its aggressive mineral exploration program to extend known reserves at existing mines, and to find new deposits that could be developed into profitable mines. This program focuses on precious metals and industrial minerals exploration principally in the western United States, but with increasing emphasis in Canada.

Exploration offices are maintained in Coeur d'Alene, Idaho; Reno, Nevada; and Denver, Colorado.

In 1985 exploration activities in Canada were expanded, a previously unknown vein at the Escalante mine was discovered, and exploration of the promising high-grade discovery at Republic, Washington, continued.

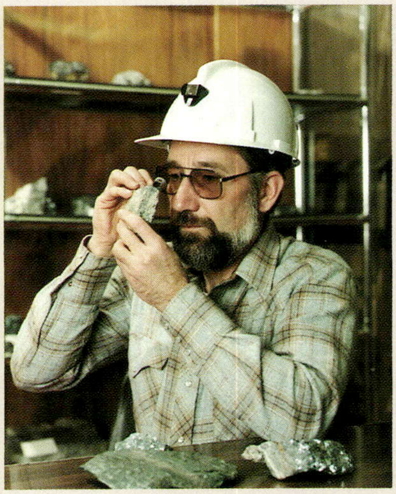
In addition to exploration projects in eight western states, drilling and geologic or geophysical activities were conducted on three Canadian projects located in Ontario, Quebec, and the Yukon Territory. At these projects, preliminary exploration has indicated promising gold mineralization which will be tested with follow-up geophysics, geologic mapping, sampling and drilling in 1986.

At The Consolidated Silver Venture, Osburn, Idaho, efforts to develop ore reserves in the Silver Summit #4 vein were suspended in favor of exploration drifting to the east for a target believed to possess far more potential. At year's end, the drift had progressed 2,788 feet to the east, 350 feet short of the station from which the intersection of the Chester and Polaris veins will be tested by drilling.

Terry DeVoe (left), mine geologist, and Rick Tschauder, Republic Unit exploration geologist, go over plans for further development of the newly discovered Golden Promise II vein. This heading on the 10 level of the mine is now being prepared for mining.

Diamond drilling on the 5100 level of the Lucky Friday mine to explore adjacent properties of Allied Silver-Lead Company was temporarily suspended in mid-July, and restarted late in 1985. The target for exploration at the project is the Web Leasure vein, known in its upper reaches to contain siderite and silver mineralization in the Wallace formation. The Web Leasure vein should occur in the Revett formation which is known to be a favorable host for high-grade silver ore.

The search for more high-grade gold ore, first discovered in 1984, was continued at Republic, Washington. Two veins, Golden Promise I and Golden Promise II, have been penetrated with drill holes, drifts and raises. The work to date indicates that the Golden Promise area is typified by numerous faults which, in part, postdate the ore-grade mineralization, and complicate the task of developing ore reserves. Sufficient work has been completed to estimate possible reserves of 300,000 tons at 0.8 ounces of gold per ton in the Golden Promise area. ***Should further work substantiate these reserves, the mine life will have been extended by about 5 years at current production rates and economics, with good potential for additional reserves.***



Stan Coombs, Consolidated Silver project geologist, uses a small hand lens to examine an ore specimen.

Other Interests

Hecla maintains a 12.4% overall ownership in Callahan Mining Corporation's **Caladay** silver project. We have also entered into a long-term lease agreement with Callahan in which the adjacent Hornsilver-Peerless properties are included in the venture with Hecla retaining a 30% net profits interest. Neither agreement required Hecla to share in exploration and development costs during 1985. Shaft sinking at the Caladay Project was completed early in the year to the 4900-foot level, and a long-term underground exploration program was begun.

Hecla owns 35% of the common stock and all of the preferred stock of **Granduc Mines, Ltd.** Early in the year, Newhawk Gold Mines Ltd. and Lacana Mining Corporation entered into an agreement to explore the Sulphurets gold property owned by Granduc Mines in British Columbia. Newhawk has announced that drilling completed during the 1985 field season indicates mineral reserves of over 1,000,000 tons at 0.8 ounces of gold equivalent per ton. Gold equivalent is defined by Newhawk as combined gold and silver content at a ratio of 1 ounce of gold to 50 ounces of silver. Further work is scheduled for the summer of 1986.

The **Lisbon Valley** uranium-vanadium mine near Moab, Utah, equally owned by Hecla and Umetco Minerals Corporation, a subsidiary of Union Carbide Corporation, continues on a maintenance and standby basis pending recovery of uranium prices.

The **Florence-Queen** mine at Neihart, Montana, is being held on a care-and-maintenance basis until improved metal prices allow development of this silver-lead property.

The **Revenue-Virginius** silver property near Ouray, Colorado, is currently being held on care-and-maintenance status.

At the **Yellow Pine** gold property near Stibnite, in central Idaho, negotiations resulted in successful modification of the existing agreement. Reserves of 900,000 tons of oxidized ore containing 0.10 ounces of gold per ton have been established.

Production Analysis (1)

	Hecla Interest (Percent)	Year	Ore Milled (Tons)	Silver (Ounces)	Gold (Ounces)	Lead (Tons)	Zinc (Tons)	Copper (Tons)	Clay (Tons/ Shipped)	Scoria (Tons/ Shipped)
Lucky Friday Unit	100	1985	276,817	4,740,971	2,429	34,789	3,915	534		
		1984	257,315	4,795,758	2,740	31,336	3,304	442		
Sunshine Unit Area (2)		1985								
	33¼	1984	20,510	365,703				67		
Galena Unit	12½	1985	25,022	512,941	73			154		
		1984	26,125	524,302	90			172		
Leadville Unit (3)	60	1985								
		1984	37,216	318,674	99	186				
Coeur Unit	5	1985	7,561	131,413	16			61		
		1984	7,213	124,227	15			61		
Republic Unit	100	1985	60,551	101,521	39,192					
		1984	61,440	80,967	22,757					
Escalante Unit	100	1985	296,946	2,438,978						
		1984	286,554	2,235,781						
Golden Eagle Mine (4)	100	1985								
		1984			1,517					
Kentucky-Tennessee Clay Company	100	1985							401,270	
		1984							411,202	
Colorado Aggregate Company	100	1985								53,858
		1984								47,313

(1) Reflects Hecla's share of production only
(2) Hecla's interest terminated April 30, 1984
(3) Production ceased September 1984
(4) Sold, no Hecla production in 1985

Following table represents total production from operations for the past five years:

Year	Ore Milled (Tons)	Silver (Ounces)	Gold (Ounces)	Lead (Tons)	Zinc (Tons)	Copper (Tons)	Clay (Tons Shipped)	Scoria (Tons Shipped)
1985	666,897	7,925,824	41,710	34,789	3,915	749	401,270	53,858
1984	699,673	8,445,412	27,218	31,522	3,304	742	411,202	47,313
1983	712,633	9,115,842	20,607	27,969	2,143	1,129	371,301	49,676
1982	621,483	7,494,876	23,967	23,356	5,491	994	322,814	
1981 (1)	557,322	4,975,340	18,533	18,753	8,256	1,408	408,064	

(1) The Lucky Friday mine was closed because of a labor strike from March 21, 1981 to May 23, 1981.

Average Metal Prices

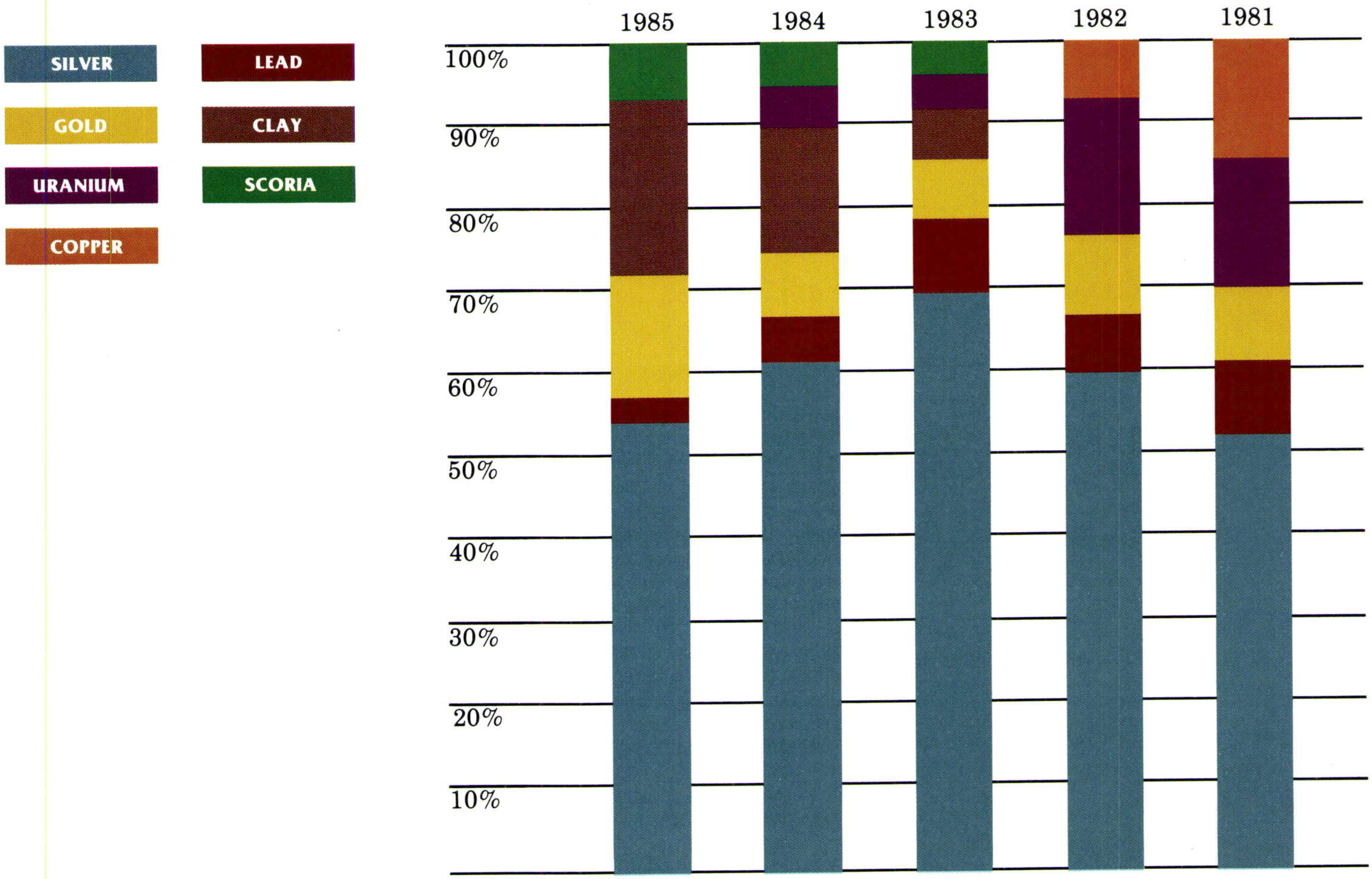
	1985					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	**Year**	1984
Gold - $ per oz. (London Final)	302	319	323	324	**317**	360
Silver - $ per oz. (Handy & Harman)	6.06	6.30	6.13	6.07	**6.14**	8.14
Lead - ¢ per lb. (MW US Producer)	19	20	19	19	**19**	25

Proven and Probable Mineral Reserves December 31

Mine	Year	Total Tons	Hecla Share (Tons)	Silver (0z. Per Ton)	Gold (0z. Per Ton)	Lead (Percent)	Zinc (Percent)	Copper (Percent)
Lucky Friday Unit	1985	670,300	670,300	16.6		11.9	1.9	
	1984	627,500	627,500	17.5		13.2	1.6	
Escalante Unit *(1)*	1985	1,689,000	1,689,000	9.7				
	1984	1,528,000	1,528,000	9.1				
Republic Unit	1985	96,300	96,300	2.6	0.61			
	1984	151,400	151,400	1.6	0.50			
Galena Unit	1985	1,084,500	135,600	17.2				0.5
	1984	1,185,400	148,000	17.4				0.5
Coeur Unit	1985	888,800	44,400	20.7				0.9
	1984	1,013,300	50,700	22.0				1.0

(1) Due to an error in calculations, 1984 mineral reserve for Escalante was incorrectly stated as 2,621,400 tons @ 9.4 ounces of silver per ton in the 1984 Annual Report.

Total Sales Revenues by Product (% last 5 years)



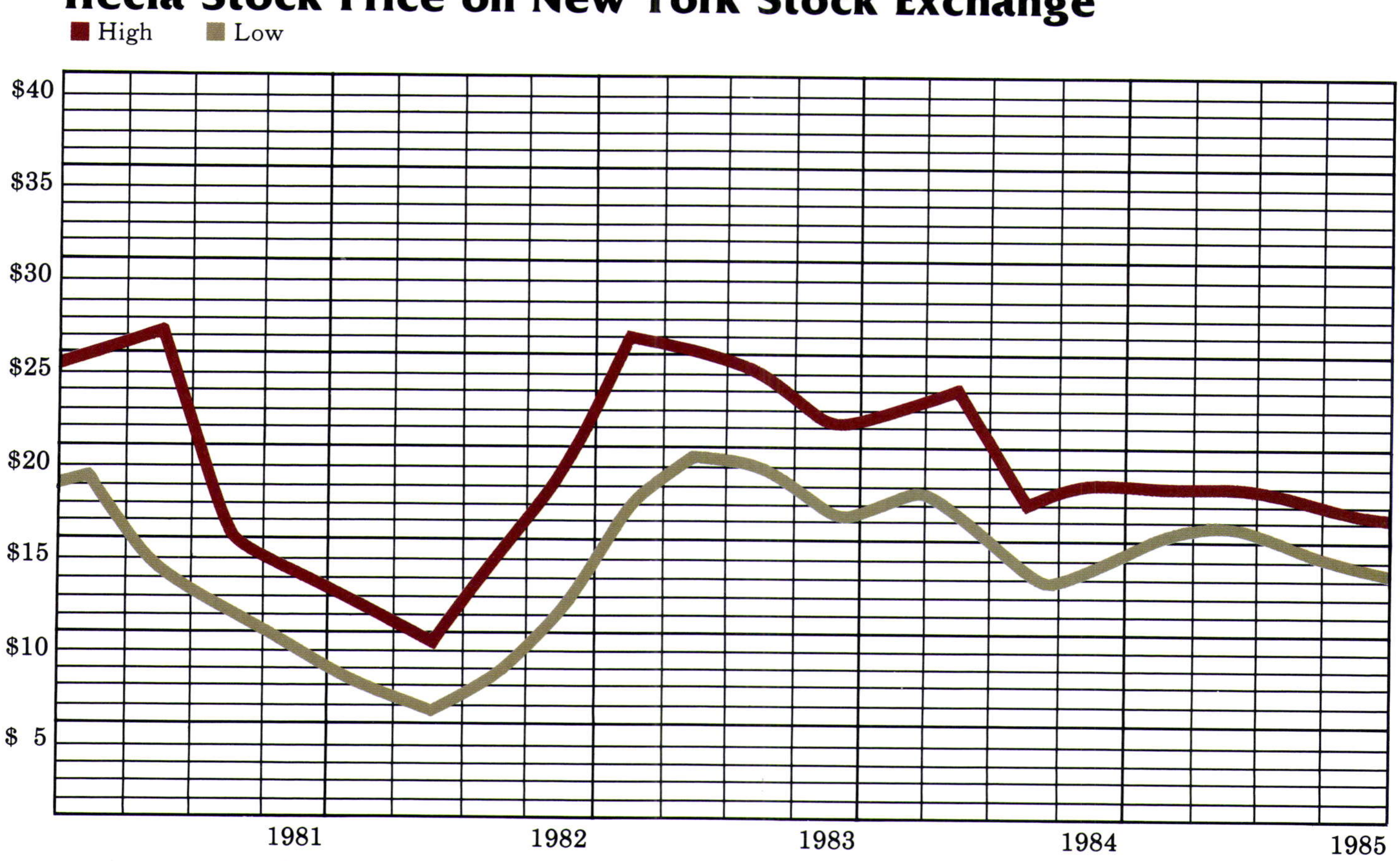
Selected Financial Data

(dollars in thousands except for per-share amounts)

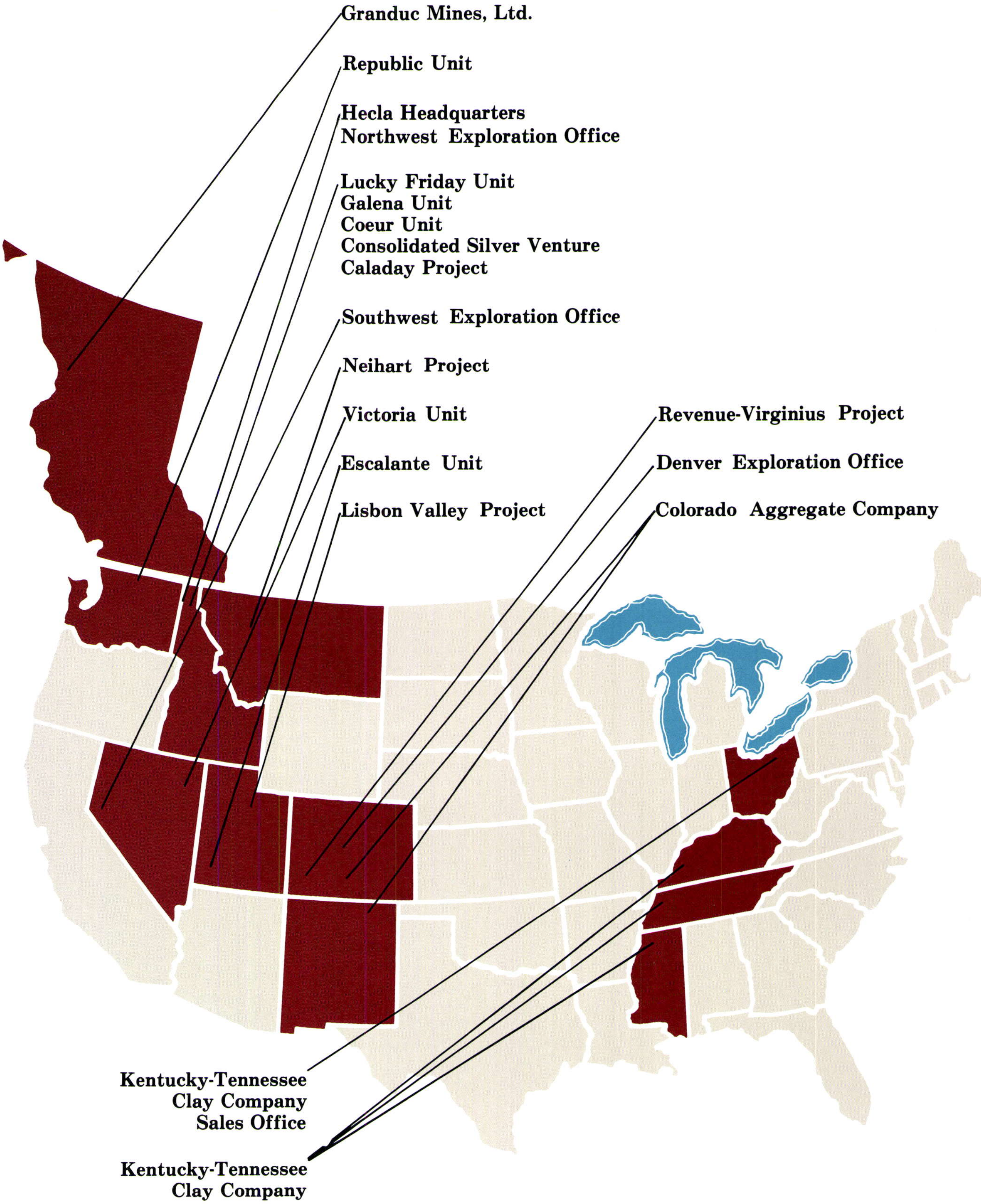
	Years Ended December 31,				
	1985	1984	1983	1982	1981
Total revenue	$ 82,579	$113,750	$149,669	$ 96,771	$100,933
Income (loss) from continuing operations before extraordinary credit	$ (8,918)	$ 7,629	$ 30,494	$ 8,278	$ 874
Income (loss) from discontinued operation	4,694	—	—	(3,599)	—
Extraordinary credit	—	3,617	7,075	—	1,928
Cumulative effect of change in accounting for supplies inventory	—	846	—	—	—
Net income (loss)	$ (4,224)	$ 12,092	$ 37,569	$ 4,679	$ 2,802
Income (loss) per common share from continuing operations before extraordinary items	$(0.33)	$ 0.29	$ 1.16	$ 0.34	$ 0.04
Net income (loss) per common share	$(0.16)	$ 0.45	$ 1.43	$ 0.19	$ 0.11
Total assets	$ 170,932	$190,305	$222,100	$146,324	$143,435
Long-term debt — Notes and contracts payable	$ 562(1)	$ 546(1)	$ 9,930	$ 11,222	$ 8,616
Proceeds from sale of future production	$ —	$ —	$ 13,079	$ 16,496	$ 16,609
Dividends — Per common share	$ 0.20	$ 0.20	$ 0.17	$ 0.03	$ 0.22

(1) Long-term debt is included in other noncurrent liabilities in 1985 and 1984.

Hecla Stock Price on New York Stock Exchange



Hecla Mining Company and Subsidiaries



Management's Discussion and Analysis of Financial Condition and Results of Operations

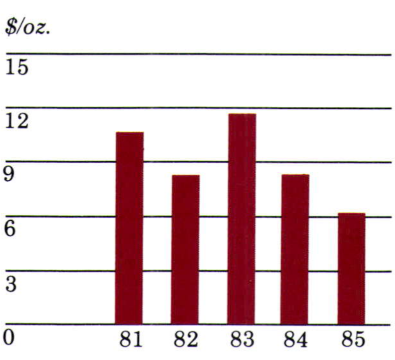
1985 versus 1984

The net loss for the year ended December 31, 1985 of $4.2 million is a change of $16.3 million from 1984 net income of $12.1 million. Sales revenue decreased 27% or $30 million. The decrease in sales and the $24.1 million gain on the sale of the Sunshine Unit Area in 1984 were the primary reasons for the decrease in net income. The reduction in sales revenue was primarily due to a decrease in average metal prices in 1985, and the end of profitable uranium sales in 1984.

Operating income from the Company's metals business decreased by 66% from 1984 to 1985. The decreases in average metal prices which had the largest impact on sales and operating income were 25% for silver, 12% for gold and 25% for lead. In 1984, approximately 167,000 pounds of uranium were sold and contributed approximately $2.5 million to operating income. The Company's contractual commitments to deliver uranium expired in 1984. In 1985, approximately 200,000 pounds of stockpiled uranium were sold at its inventory carrying value.

Sales for 1984 also included production from the Sunshine Unit Area until April 1984 when Hecla sold its interest in the Sunshine Unit Area, and production at the Leadville Unit which was suspended in September 1984. In comparing the net results of the two periods, the loss of production from these two properties had a positive impact on operating income in 1985.

Silver



Operating costs and expenses decreased by $10 million, or 14%, in 1985, compared to 1984. The decrease in operating costs and expenses was primarily due to the elimination of costs that were associated with the Sunshine Unit Area, Leadville Unit, the Golden Eagle gold mine in Alaska (which was sold in 1985), and the uranium sales. Normal production levels were maintained at the Company's other operating properties throughout 1985.

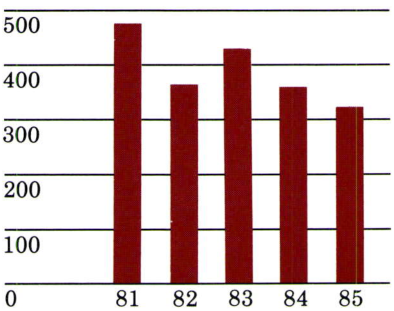
Operating income from the Company's industrial minerals business decreased by approximately 9% from 1984 to 1985, and was primarily due to price concessions in selected product lines reflecting increased competitive pressures. The industrial minerals business continued to be an important factor in the Company's operations, particularly in view of the current depressed metal prices.

The decrease of $1.1 million in interest and other income is primarily due to a decrease in interest rates and a decrease in cash available for short-term investments. The decreases were partially offset with income generated from the sale of surplus assets and investments in common stock.

General and administrative expense decreased approximately $8.8 million, exploration expense $3.2 million and interest expense $1.2 million in 1985. The decrease in general and administrative expense is primarily due to fewer administrative staff personnel in 1985 and $6.8 million of costs that were incurred for the Ranchers merger in 1984. The decrease in exploration expense is primarily due to planned curtailments of certain projects in 1985.

Net income for 1985 includes income of $4.7 million from discontinued operations, recognizing Hecla's share of the remaining net assets of the Lakeshore partnership, which was terminated in October 1985, after all commitments of the partnership expired. The 1985 decrease in the provision for income taxes and the extraordinary credit is because the Company had a tax loss in 1985.

Gold



1984 versus 1983
Net income for the year 1984 decreased by $25.5 million to $12.1 million as compared to $37.6 million for 1983. Sales of concentrates and products declined by 21% in 1984 from 1983. The decline is primarily a result of a 29% decrease in the average silver price and a 15% decrease in the average gold price. Partially offsetting the decrease in gold and silver prices was an 18% increase in the price of lead. However, changes in the lead price do not have the same impact on revenue as do precious metal prices.

Silver production decreased 7.7%, to 8.4 million ounces in 1984 from 9.1 million ounces in 1983. This decrease was primarily due to the sale of the Company's 33.25% interest in the Sunshine Unit Area in April of 1984.

Sales of uranium decreased to 167,000 pounds in 1984 from 265,000 pounds in 1983. The Company's contractual commitments to deliver uranium expired in May 1984.

Operating costs and expenses decreased in 1984 as compared to 1983 by $5.0 million, or 6.5%. The total tons of ore mined and processed was approximately the same in 1984 and 1983.

The industrial minerals business segment for 1983 includes the operating results for Kentucky-Tennessee Clay Company only from April 7, the acquisition date.

The decrease in interest and other income of $6.4 million in 1984 from 1983 was primarily due to a decrease in uranium royalties. In the fourth quarter of 1983, Ranchers negotiated a favorable settlement of uranium royalty calculation disputes.

Exploration expenditures increased by $5.9 million in 1984 from 1983. The major exploration projects contributing to the increase are at the Lucky Friday mine, Consolidated Silver Joint Venture, and the Cripple Creek and Victor Gold Mining Company Joint Venture.

The increase in general and administrative expenses in 1984 from 1983 is due principally to $6.8 million of costs from the merger of Hecla and Ranchers, which includes $2.3 million related to employment agreements of former Ranchers executives. The increase of $2.2 million in depreciation, depletion and amortization is due primarily to increased depreciation of the Silver Shaft at the Lucky Friday mine. The decrease in interest expense is due to the liquidation of long-term debt in 1984.

Other significant factors occurring in 1984 that did not affect income in 1983 are:

(1) pre-tax gain of $24.1 million on the sale of the Company's 33.25% interest in the Sunshine Unit Area;

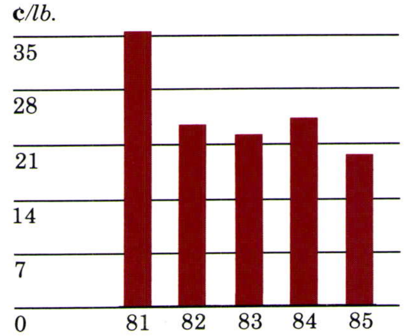
(2) write-downs, totalling $8.4 million, in the carrying values for the Victoria copper-silver property in Nevada, the Cripple Creek and Victor Gold Mining Company Joint Venture in Colorado, and stock investments in inactive mining companies. The decision to write down the carrying value of the Victoria property was based on a reevaluation of the copper market and negotiations in attempting to sell the property. Hecla terminated its partnership interest in the Cripple Creek and Victor Gold Mining Company Joint Venture on November 2, 1984.

Income tax expense in 1984, after consideration of the extraordinary credit from the utilization of net operating loss carryforwards, decreased from 1983. The decrease was primarily due to a reduction in taxable income. The tax provision in 1984 and 1983 is mainly for the minimum tax on preference items (principally percentage depletion).

Financial Condition and Liquidity
Hecla's primary sources of liquidity are internally generated funds and its $50 million Bank Credit Agreement. In January 1983, Hecla sold 1,000,000 shares of newly issued common stock to the public through an underwriting syndicate. Net proceeds from the stock offering were approximately $22.4 million. Hecla used $9.5 million of the cash proceeds along with $1 million of working capital to retire the balance of its notes payable to banks. In July of 1983, Ranchers completed a sale of common stock using the proceeds of approximately $15.6 million to reduce long-term debt. Hecla has no significant long-term debt at December 31, 1985. Although a loss was reported in 1985, the Company has maintained a strong balance sheet. Cash flow from continuing operations, excluding the income from discontinued operations, was a positive $4.8 million. At the end of 1985, assets totalled approximately $170.9 million and shareholders' equity amounted to $143.8 million. Cash and cash equivalents and working capital decreased to approximately $8.7 million and $24.8 million at December 31, 1985 from $13.0 million and $27.2 million at December 31, 1984, respectively.

At December 31, 1985, net operating loss carryforwards were available to offset future taxable income, and substantial investment tax credit carryforwards were available to offset future income taxes payable.

Lead



Internally generated funds and working capital are considered adequate to finance Hecla's operations and capital expenditures in the near term. The bank credit line of $50 million is considered adequate to serve any of Hecla's current long-term plans and objectives. Hecla believes it has the flexibility to adjust its activities to cope effectively with changing economic conditions.

Consolidated Balance Sheets

December 31, 1985 and 1984 (dollars in thousands)

Assets

	December 31, 1985	December 31, 1984
Current assets:		
Cash and cash equivalents	$ 8,740	$ 13,013
Accounts and notes receivable	12,721	12,343
Inventories (Note 7)	12,927	15,622
Other current assets	498	549
Total current assets	34,886	41,527
Investments (Note 8)	16,350	21,885
Properties, plants and equipment, net (Note 9)	115,607	120,955
Other assets	4,089	5,938
Total assets	$170,932	$190,305

Liabilities

	December 31, 1985	December 31, 1984
Current liabilities:		
Accounts payable and accrued expenses	$ 9,235	$ 8,995
Accrued taxes	830	1,476
Income taxes currently payable (Note 5)	—	3,904
Total current liabilities	10,065	14,375
Deferred income taxes (Note 5)	10,688	12,196
Deferred revenue	3,766	3,336
Other noncurrent liabilities	2,573	3,514
Total liabilities	27,092	33,421
Contingencies (Note 11)		

Shareholders' Equity

	December 31, 1985	December 31, 1984
Preferred stock, 25¢ par value, authorized 5,000,000 shares, none issued		
Common stock, 25¢ par value, authorized 1985 and 1984 - 50,000,000 and 30,000,000 shares; issued 26,993,984 and 26,986,699 shares (Notes 2 and 12)	6,748	6,747
Capital surplus	52,311	52,315
Earnings retained in the business (Note 6)	93,887	103,502
Net unrealized loss on marketable equity securities (Note 8)	(8,848)	(5,555)
Less common stock reacquired, at cost; 1985 - 23,759 shares, 1984 - 8,541 shares	(258)	(125)
Total shareholders' equity	143,840	156,884
Total liabilities and shareholders' equity	$170,932	$190,305

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Operations

For the Years Ended December 31, 1985, 1984 and 1983 (dollars and shares in thousands, except for per-share amounts)

	Year Ended December 31,		
	1985	1984	1983
Sales of concentrates and products	$79,434	$109,480	$139,049
Operating costs and expenses	62,279	72,268	77,277
Operating income	17,155	37,212	61,772
Interest and other income (Note 8)	3,145	4,270	10,620
Gain on sale of Sunshine Unit Area (Note 9)	—	24,073	—
	20,300	65,555	72,392
Other expenses:			
General and administrative	5,972	14,731	9,097
Exploration	8,744	11,909	6,009
Interest and commitment fees	489	1,642	2,522
Depreciation, depletion and amortization	13,764	12,677	10,514
Reduction in carrying value of mining property (Note 9)	—	8,067	—
Total other expenses	28,969	49,026	28,142
Income (loss) before income taxes and extraordinary credit	(8,669)	16,529	44,250
Provision for income taxes (Note 5)	249	8,900	13,756
Income (loss) from continuing operations before extraordinary credit	(8,918)	7,629	30,494
Income from discontinued operation (Note 4)	4,694	—	—
Income (loss) before extraordinary credit	(4,224)	7,629	30,494
Extraordinary credit - Estimated effect of utilization of net operating loss carryforwards (Note 5)	—	3,617	7,075
Cumulative effect of change in accounting for supplies inventory (Note 7)	—	846	—
Net income (loss)	$(4,224)	$ 12,092	$ 37,569
Net income (loss) per share:			
Continuing operations before extraordinary credit	$(0.33)	$ 0.29	$ 1.16
Discontinued operation	0.17	—	—
Extraordinary credit	—	0.13	0.27
Cumulative effect of change in accounting for supplies inventory	—	0.03	—
	$(0.16)	$ 0.45	$ 1.43
Dividends per share (Note 2)	$ 0.20	$ 0.20	$ 0.17
Weighted average number of common shares outstanding	26,974	26,929	26,211

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Changes in Financial Position

For the Years Ended December 31, 1985, 1984 and 1983 (dollars in thousands)

	Year Ended December 31,		
	1985	1984	1983
Sources (uses) of cash:			
Continuing operations:			
Income (loss) before extraordinary credit	$ (8,918)	$ 7,629	$ 30,494
Noncash elements included in net income (loss):			
Depreciation, depletion and amortization	13,764	12,677	10,514
Deferred income taxes	—	1,054	2,150
Reduction in carrying value of mining property	—	8,067	—
Cash provided from continuing operations	4,846	29,427	43,158
Income from discontinued operation (Note 4)	4,694	—	—
Extraordinary credit	—	3,617	7,075
Cumulative effect of a change in accounting principle (Note 7)	—	846	—
Cash provided from operations	9,540	33,890	50,233
Working capital, exclusive of cash and current debt:			
Receivables	(378)	4,080	134
Federal and state income taxes refundable	—	—	679
Inventories	2,695	330	(7,712)
Other current assets	51	1,106	1,125
Accounts payable and accrued expenses	240	(950)	71
Income taxes currently payable	(3,904)	1,288	4,022
Accrued taxes	(646)	(482)	1,138
Accounts payable for Ranchers' stock	—	(15,173)	(3)
Cash used for working capital	(1,942)	(9,801)	(546)
Investment activities:			
Investments, net	964	(21,304)	(6,976)
Properties, plants and equipment, net	(8,142)	(12,292)	(9,851)
Other noncurrent assets	1,575	(2,830)	(124)
Purchase of Kentucky-Tennessee Clay Company and Colorado Aggregate Company (Note 2):			
Properties, plants and equipment, and other assets	—	—	(27,166)
Long-term debt assumed	—	—	4,109
Cash used for investment activities	(5,603)	(36,426)	(40,008)
Dividends declared and paid (Note 2)	(5,391)	(5,277)	(4,404)
Internal cash flow (use)	(3,396)	(17,614)	5,275
Financing activities:			
Deferred revenue	430	3,336	—
Long-term debt incurred	—	—	23,656
Long-term debt retired	—	(9,754)	(28,267)
Decrease in proceeds from sale of future production	—	(13,079)	(3,417)
Other noncurrent liabilities and deferred income taxes	(1,171)	2,102	1,459
Common stock issued for cash	—	—	37,974
Common stock and treasury stock sold under Stock Option Plans (Note 12)	—	436	55
Acquisition of treasury stock	(133)	(1)	(33)
Other shareholders' equity transactions	(3)	—	23
External cash flow (use)	(877)	(16,960)	31,450
Net change in cash and cash equivalents	(4,273)	(34,574)	36,725
Cash and cash equivalents, beginning of year	13,013	47,587	10,862
Cash and cash equivalents, end of year	$ 8,740	$ 13,013	$ 47,587

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the Years Ended December 31, 1985, 1984 and 1983 (dollars and shares in thousands, except for per-share amounts)

	Common Stock Shares	Common Stock Amount	Capital Surplus	Earnings Retained in the Business	Treasury Stock	Net Unrealized Loss on Marketable Equity Securities
Balances, December 31, 1982	22,278	$5,570	$15,022	$ 63,504	$ (91)	
Net income				37,569		
Cash dividends:						
Hecla				(2,809)		
Ranchers				(229)		
Gold and silver dividends by Ranchers				(1,366)		
Common stock issued for cash:						
Hecla ($22.42 per share)	1,000	250	22,165			
Ranchers ($20.28 per share)	767	192	15,367			
Acquisition of treasury stock					(33)	
Stock issued under Hecla's Incentive Stock Option Plan (Note 12)	5	1	54			
Net change in unrealized loss on marketable equity securities						$ (330)
Three-for-two stock split	2,868	717	(717)			
Other	(1)	(1)	6	18		
Balances, December 31, 1983	26,917	6,729	51,897	96,687	(124)	(330)
Net income				12,092		
Cash dividends:						
Hecla				(4,587)		
Ranchers				(162)		
Gold and silver dividends by Ranchers				(528)		
Net change in unrealized loss on marketable equity securities (Note 8)						(5,225)
Stock issued under stock option plans (Note 12)	70	18	418			
Acquisition of treasury stock					(1)	
Balances, December 31, 1984	26,987	6,747	52,315	103,502	(125)	(5,555)
Net (loss)				(4,224)		
Cash dividends				(5,391)		
Net change in unrealized loss on marketable equity securities (Note 8)						(3,293)
Acquisition of treasury stock					(133)	
Other	7	1	(4)			
Balances, December 31, 1985	26,994	$6,748	$52,311	$ 93,887	$(258)	$(8,848)

The accompanying notes are an integral part of the financial statements.

Report of Certified Public Accountants

The Board of Directors and Shareholders
Hecla Mining Company

We have examined the consolidated balance sheets of Hecla Mining Company and consolidated subsidiaries as of December 31, 1985 and 1984, and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Hecla Mining Company and consolidated subsidiaries at December 31, 1985 and 1984, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles consistently applied during the period, except for the change in 1984, with which we concur, in the method of accounting for materials and supplies as described in Note 7 to the financial statements.

COOPERS & LYBRAND

Spokane, Washington
February 7, 1986

Notes to Consolidated Financial Statements

1. **Summary of Significant Accounting Policies:**

a. Company's Business - Hecla and its wholly-owned subsidiaries are engaged in mining and mineral processing. Sales of metal concentrates and products are made principally to custom smelters and commodity dealers. Industrial minerals are sold principally to manufacturers and wholesalers. Sales to significant customers, as a percentage of total sales of concentrates and products, were as follows:

	1985	1984	1983
Custom smelter	12.1%	16.0%	18.8%
Custom metal traders:			
Customer A	23.2%	24.0%	32.0%
Customer B	14.0%	7.8%	4.0%
Customer C	15.4%	8.5%	3.3%

b. Basis of Consolidation - The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries (see Note 2) and its proportionate share of the accounts of the joint ventures in which it participates. All significant intercompany transactions and accounts related to the consolidated subsidiaries are eliminated.

c. Inventories - Inventories are stated at the lower of average cost or estimated net realizable value.

d. Investments - The Company follows the equity method of accounting for nonconsolidated subsidiaries and investments in common stock of operating companies 20% to 50% owned. Investments in nonoperating companies that are not intended for resale or are not readily marketable are valued at the lower of cost or net realizable value. The carrying value of marketable equity securities is based on the lower of cost or quoted market value. The cost of investments sold is determined by specific identification.

e. Properties, Plants and Equipment - Properties, plants and equipment are stated at cost. Maintenance, repairs and renewals are charged to operations. Betterments of a major nature are capitalized. When assets are retired or sold, the costs and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. Idle facilities, placed on a standby basis, are carried at the lower of cost, less accumulated depreciation, depletion and amortization, or estimated net realizable value.

Management of the Company reviews the net carrying value of all facilities, including idle facilities, on a regular, periodic basis. These reviews consider, among other factors, (1) the net realizable value of each major type of asset, on a property-by-property basis, to reach a judgement concerning possible permanent impairment of value and any need for a write-down in asset value, (2) the ability of the Company to fund all care, maintenance and standby costs with cash from other continuing operations, (3) the status and usage of the assets, while in a standby mode, to thereby determine whether some form of amortization is appropriate, and (4) current projections of metal prices that affect the decision to reopen or make a disposition of the assets.

Depreciation is computed using straight-line and declining-balance methods based on the estimated useful lives of the assets, and the unit-of-production method. Depletion is computed using the unit-of-production method.

Provisions for depreciation, depletion and amortization that are based on units of production are not made when operations are suspended. Depreciation, depletion and amortization rates are subject to periodic review to assure that asset costs are written off over their useful lives.

f. Mine Exploration and Development - Exploration costs are charged to income as incurred, as are normal development costs at operating mines. Major mine development expenditures at operating properties and at new mining properties not yet producing are capitalized.

g. Reclamation of Mining Areas - Minimum standards for mine reclamation have been established by various governmental agencies which affect certain operations of the Company. A reserve for mine reclamation has been established for restoring certain abandoned and currently disturbed mining areas, based upon estimates of cost to comply with existing reclamation standards.

h. Income Taxes - The benefits of investment tax credits are recognized on a flow-through basis in the year they are available to reduce the income tax provision.

i. Net Income (Loss) Per Share - Net income (loss) per share is based on the weighted average number of shares of common stock and common stock equivalents (stock options) outstanding during each reporting period, except in periods where the common stock equivalents are anti-dilutive. All per-share amounts reflect stock splits and business combinations.

j. Revenue Recognition - Sales of metals in concentrates sold direct to smelters are recorded when received at the smelter at the estimated metal prices in the settlement month. Recorded values are adjusted periodically and upon final settlement. Silver in concentrates tolled (rather than sold to smelters) is sold under contracts for future delivery; such contracts are recorded at contractual amounts when concentrates are delivered to the smelter for processing. Sales of industrial minerals are recognized as the minerals are delivered.

k. Deferred Revenue - Deferred revenue includes income to be recognized on the sale of certain mineral properties. Revenue is recognized when cash proceeds exceed the Company's net book value of the assets sold and the collectibility of the remaining payments is assured.

l. Net Profit Royalty Interests - Net profit royalties paid to other interests are recorded as an operating cost of the property.

m. Changes in Presentation of Financial Statements - In 1985, the Company changed its presentation of the statement of changes in financial position from the "working capital" format to the "cash and cash equivalents" format. The statements of changes in financial position for the years ended December 31, 1984 and 1983 have been restated to conform with the 1985 presentation.

Additionally, certain amounts have been reclassified on the consolidated balance sheets to conform with the 1985 presentation.

2. Business Combinations:

On July 26, 1984, Hecla completed a merger with Ranchers Exploration and Development Corporation (Ranchers) (whose business was substantially the same as Hecla's). Pursuant to this business combination, each Ranchers shareholder received 1.55 shares of Hecla common stock (8,176,844 total shares) in exchange for each outstanding Ranchers share. The merger was accounted for as a pooling of interests and, accordingly, the financial statements of Ranchers are consolidated for all periods presented herein.

Total pre-merger dividends paid by both Hecla and Ranchers, divided by the number of common shares outstanding after reflecting stock splits and the completion of the merger, are as follows:

	1984	1983
Total amount (in thousands)		
Hecla	$ 4,587	$ 2,809
Ranchers	690	1,595
Total	$ 5,277	$ 4,404
Per Share		
Hecla	$ 0.20	$ 0.15
Ranchers	0.12	0.28
Total	$ 0.20	$ 0.17

During 1983 Ranchers acquired all of the common stock of Kentucky-Tennessee Clay Company which mines ball clay used to produce pottery, dinnerware, wall tile, electrical insulators, and sanitaryware. The total cost of this acquisition approximated $26,100,000 and was accounted for as a purchase. Results of operations since April 7, 1983 are included with the operating results of the Company. Pro forma results of operations assuming completion of this acquisition on January 1, 1983, follow (in thousands, except per-share amounts):

	1983
Revenue	$ 153,135
Income from continuing operations	31,100
Per share	1.19
Net income	37,975
Per share	1.45

Effective January 1, 1983, Ranchers acquired the net assets of Colorado Aggregate Company, which mines and sells volcanic rock products. The total cost of this acquisition approximated $5,500,000 and was accounted for as a purchase. Operations for 1983 are included with the operating results of the Company.

On November 30, 1983, Ranchers exchanged 345,884 net shares of its common stock (equivalent to 582,620 shares of Hecla common stock) for all the outstanding shares of Escalante Silver Mines Company, Inc. (Escalante). Escalante was the owner of the production royalty, a net profits interest, and the reversionary rights in the mill and mine properties of the Escalante mine that was then operated by Ranchers. The acquisition was accounted for as a pooling of interests and the accompanying financial statements include the operations of Escalante for all periods presented herein.

A director of Ranchers was the president and principal shareholder of Escalante. Production royalties of $609,708 and 15,151 ounces of silver were also paid to Escalante during 1983.

3. **Business Segments** (in thousands):

	December 31, 1985	1984	1983
Net sales to unaffiliated customers:			
Metals	$ 57,517	$ 87,576	$122,133
Industrial minerals	21,917	21,904	16,916
Total sales	$ 79,434	$109,480	$139,049
Operating income:			
Metals	$ 9,780	$ 29,128	$ 56,213
Industrial minerals	7,375	8,084	5,559
Operating income	$ 17,155	$ 37,212	$ 61,772
Capital expenditures:			
Metals	$ 1,833	$ 6,548	$ 11,929
Industrial minerals	2,168	2,797	781
General corporate assets	5,258	3,203	385
	$ 9,259	$ 12,548	$ 13,095
Depreciation, depletion and amortization:			
Metals	$ 9,626	$ 8,864	$ 7,864
Industrial minerals	3,568	3,137	1,993
General corporate assets	570	676	657
	$ 13,764	$ 12,677	$ 10,514
Identifiable assets:			
Active metals facilities	$ 72,391	$ 87,968	$117,915
Industrial minerals business	30,344	27,301	29,864
General corporate assets	52,644	60,914	60,574
Idle metal facilities	15,553	14,122	13,747
	$170,932	$190,305	$222,100

Operating costs and identifiable assets of each segment are those that are directly identified with those operations. General corporate assets consist primarily of cash, receivables, investments and corporate fixed assets.

4. Discontinued Operation:

Hecla and El Paso Natural Gas Company (El Paso) were the partners in a venture that was formed to operate the Lakeshore copper mine in Arizona. Hecla wrote off its investment in the mine property in 1978. The partnership had continuing commitments under power supply agreements that expired in October 1985. Simultaneously, the partnership was terminated and the remaining assets were distributed to the partners. Accordingly, Hecla has eliminated its net reserve for discontinued operations and recognized $4,694,000 of income from discontinued operations in 1985.

5. Income Taxes:

Major components of the Company's income tax provision are (in thousands):

	1985	1984	1983
Currently payable:			
Federal	—	$ 3,696	$ 3,505
State	$ 249	533	1,026
Total current	249	4,229	4,531
Deferred:			
Development costs deducted for income tax purposes, deferred for financial statement purposes	—	716	1,258
Amortization of development costs expensed for tax purposes in prior years	—	(285)	(634)
Restoration of investment tax credits	—	570	1,444
Provision for minimum tax	—	(272)	(358)
Loss on disposal of property	—	15	393
Other	—	310	47
	—	1,054	2,150
Tax effect of net operating loss carryovers	—	3,617	7,075
	$ 249	$ 8,900	$13,756

The annual tax provision is different from the amount which would be provided by applying the statutory federal income tax rate to the Company's pretax income (loss) from continuing operations. The reasons for the difference are as follows (in thousands):

	1985	%	1984	%	1983	%
Computed "statutory" provision (benefit)	$ (3,988)	(46)%	$7,603	46%	$20,355	46%
Effect of nonutilization of net operating losses	3,988	46	—	—	—	—
Effect of percentage depletion	—	—	(4,581)	(28)	(6,220)	(14)
Provision for minimum taxes	—	—	3,444	21	195	1
Investment tax credits	—	—	(400)	(2)	(874)	(2)
Effect of nondeductible merger costs	—	—	2,554	15	—	—
Other items	—	—	—	—	(376)	(1)
State income taxes, net of federal tax benefit	249	3	280	2	676	2
	$ 249	3%	$8,900	54%	$13,756	32%

For financial statements, Hecla used net operating loss carryovers of $7,900,000 and $16,800,000 in 1984 and 1983, respectively, to offset otherwise taxable income. The current federal tax provisions in 1984 and 1983 included approximately $3,444,000 and $1,200,000, respectively, for preference taxes that became payable when the Company used its tax basis net operating losses.

At December 31, 1985, the Company has tax basis net operating loss carryovers available to offset future taxable income, and investment tax credit carryovers available to offset future taxes payable. These carryovers expire as follows (in thousands):

	Net Operating Losses	Investment Tax Credits
1990		$ 533
1991		243
1992		10
1993		2
1994	$ 2,664	2
1995		216
1996	12,335	30
1997	7,418	2,279
1998		769
1999		525
2000	7,781	324
	$30,198	$4,933

For financial statement purposes, the Company has unused net operating loss carryovers of approximately $8,786,000, and investment tax credit carryovers of approximately $2,723,000.

6. **Line of Credit:**

Hecla has a $50 million unsecured revolving credit and term loan agreement with a group of five major banks. The credit agreement provides for revolving credits through December 31, 1988 which can then be converted into four-year term notes payable in equal quarterly installments. The interest rate on revolving credit loans is the lead bank's average prime commercial rate with options to borrow at the London Interbank Offered Rate (LIBOR) plus 1/2%, or a "CD Base Rate" plus 5/8% as in effect from time to time. No compensating balances are required. A commitment fee is payable quarterly at the rate of three-eighths of 1% per annum on the average daily unused portion of the revolving credit. The credit agreement contains covenants concerning certain financial statement ratios and dividends or other distributions that become effective when money is borrowed. At December 31, 1985, approximately $84 million would be available for dividends and other distributions assuming the dividend restrictions were in effect. At December 31, 1985, there were no borrowings under this agreement.

7. **Inventories:**

Inventories consist of the following (in thousands):

	December 31, 1985	December 31, 1984
Concentrates and metals in transit and other products	**$ 6,007**	$ 7,671
Industrial minerals products	**2,287**	3,918
Materials and supplies	**4,633**	4,033
	$12,927	$15,622

During 1984 the Company changed the inventory accounting practice at certain Ranchers operations to conform to that of Hecla. The change involved including in inventory unused materials and supplies, which were previously charged to operations when they were purchased. The change, which is a preferable method of accounting, was made to facilitate management control of these inventories and more accurately and consistently match the cost of operations with sales. The cumulative effect of the change was $1,175,000 before applicable income tax effect of $329,000. The effect of the change on 1984 operations was immaterial. The pro forma effect of this change on the 1983 financial statements cannot be calculated because physical inventories of materials and supplies were not taken in 1983.

8. **Investments:**

Investments consist of the following components (in thousands):

	Carrying Value	Cost	Market Value
December 31, 1985			
Marketable equity securities	$10,959	$23,244	$10,959
Other investments	5,391	5,391	
Total	$16,350	$28,635	
December 31, 1984			
Marketable equity securities	$16,491	$24,207	$16,491
Other investments	5,394	5,394	
Total	$21,885	$29,601	

At December 31, 1985, the portfolio of marketable equity securities includes gross unrealized gains of approximately $2,000 and gross unrealized losses of approximately $12,287,000 (of which approximately $10,767,000 is attributable to the Company's ownership of Sunshine Mining Company common stock received in payment for its interest in the Sunshine Unit Area (see note 9)). The net unrealized loss on marketable equity securities, that is a component of December 31, 1985 and 1984 stockholders' equity, reflects deferred tax benefits of approximately $3,440,000 and $2,160,000, respectively. Realized gains of $454,000 and realized losses on the sale of marketable equity securities of $357,000 and $62,000 are included in interest and other income during 1985, 1984 and 1983, respectively. The other investments are principally large blocks of common and preferred stock in several mining companies, and investments in various mining ventures. The securities are generally restricted as to trading or marketability although some of the shares are frequently traded on the over-the-counter market in Spokane, Washington. At December 31, 1985 and 1984, the shares of some of these companies that were traded on this market were quoted at values substantially in excess of the Company's cost basis.

9. Properties, Plants and Equipment:

The major components of properties, plants and equipment are (in thousands):

	December 31, 1985	December 31, 1984
Mining properties	**$ 10,422**	$ 10,422
Deferred development costs	**60,143**	60,255
Plants and equipment	**108,916**	104,550
Land	**6,147**	6,237
	185,628	181,464
Less accumulated depreciation, depletion and amortization	**70,021**	60,509
	$115,607	$120,955

Based on its periodic reviews of the status of various mining properties and investments, the Company determined in 1984 that certain adjustments were appropriate to properly reflect the estimated net realizable values. A write-down, related principally to the Company's Victoria mine and miscellaneous mining property investments, was therefore recorded as an expense in 1984. The net book value of the major mining properties of the Company that were on a standby or idle basis at December 31, 1985 and 1984 is approximately $14,855,000 and $14,122,000, respectively.

In April 1984, Hecla and Sunshine Mining Company (Sunshine) entered into an agreement settling many outstanding issues between the companies. The principal provisions of the agreement called for: (1) an exchange of various nonproducing mineral and stock ownership interests to consolidate ownership thereof, (2) the transfer of Hecla's 33.25% ownership in the Sunshine Unit Area (a producing mineral property) to Sunshine, and (3) the issuance of 2,250,000 shares of Sunshine common stock to Hecla. As the result of this agreement, based on estimated fair values of assets received, Hecla reported a nonrecurring gain on the sale of approximately $24,073,000. The historical revenues and operating income (loss) (before income tax provision) attributable to Hecla's interest in the Sunshine Unit Area were as follows (in thousands):

	1984	1983
Revenues	$3,244	$8,441
Operating income (loss)	$ (295)	$1,201

10. Employee Benefit Plans:

The Company and its wholly-owned subsidiaries have pension plans covering substantially all employees. Total pension expense was approximately $1,371,000 for 1985, $1,791,000 for 1984, and $1,001,000 for 1983, which includes amortization of past service costs over periods ranging from 10 to 30 years. The Company makes annual contributions to the plans substantially equal to the amounts accrued for pension expense. A comparison of the actuarial present value of accumulated plan benefits and plan net assets for the Company's defined benefit plans at the most recently completed valuation dates is presented below (in thousands):

	Plan Years Ended In	
	1984	1983
Actuarial present value of accumulated plan benefits:		
Vested	$17,355	$16,259
Nonvested	826	718
	$18,181	$16,977
Net assets available for benefits	$19,669	$17,231

The range of average assumed rates of return used in determining the actuarial present value of accumulated plan benefits was 6.5% to 7.0%. Based on the latest actuarial valuations, the Company's pension plans are currently funded.

In addition to providing pension benefits, the Company provides certain life insurance and medicaid and medicare supplement benefits. Substantially all of the Company's employees may become eligible for the life insurance benefits if they reach normal retirement age while working for the Company. The medicaid and medicare supplement benefits apply only to those employees who retired prior to October 1, 1982. The cost of these life insurance and health care benefits is recognized as an expense when payments are made and totalled approximately $113,000, $141,000, and $103,000 in 1985, 1984, and 1983, respectively.

The Company has a Deferred Compensation Plan which permits eligible officers to defer a portion of their compensation. The deferred compensation, which is accrued but unfunded, is distributable in cash after retirement or termination, and at December 31, 1985, amounted to approximately $1,146,000. In 1985, the Company insured the lives of certain officers, who participate in the deferred compensation program, to assist in the funding of the deferred compensation liability. The Company is the owner and beneficiary of the insurance.

11. Contingencies:

Various legal actions are pending against the Company and certain of its subsidiaries. Although the ultimate disposition of these actions is not presently determinable, management believes that the resolution of these matters will not materially affect the Company's operations or financial position.

The Company is involved in certain proceedings involving environmental matters. The Company has been notified by the U. S. Environmental Protection Agency (EPA) that it is a potentially responsible party with respect to one EPA designated priority list site located in the State of Colorado. The Company also has been named as a third party defendant in two separate lawsuits originally brought by the State of Colorado to recover natural resource damages under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). Management does not consider these proceedings material in the aggregate.

12. **Stock Option Plans:**

Under stock option plans adopted by Hecla and Ranchers, options have been granted to certain officers and employees to purchase common stock at a price not less than the fair market value at the date of grant. Options granted under the Hecla plan are immediately exercisable for periods of up to ten years.

Transactions concerning stock options are summarized as follows:

	Stock Option Plans		Other		Total
	Shares	Price	Shares	Price	Shares
Outstanding, December 31, 1982	32,744	$ 2.72-$10.54	46,500	$ 2.58-$6.88	79,244
Year ended December 31, 1983:					
Granted	8,700	18.62	6,975	13.97	15,675
Cancelled			(6,975)	6.88	(6,975)
Exercised (including 501 shares forfeited by the exercise of stock appreciation rights)	(5,595)	10.25			(5,595)
Outstanding, December 31, 1983	35,849	2.72-18.62	46,500	2.58-13.97	82,349
Year ended December 31, 1984:					
Granted	29,800	16.37			29,800
Cancelled			(3,976)	2.58-13.97	(3,976)
Exercised	(27,149)	2.72-10.54	(42,524)	6.88	(69,673)
Outstanding, December 31, 1984	38,500	16.37-18.62	-0-		38,500
Year ended December 31, 1985:					
Granted	30,400	15.62-16.50			30,400
Outstanding, December 31, 1985	68,900	15.62-18.62	-0-		68,900

All share and dollar amounts have been restated to reflect a 3 for 2 stock split, effective in the form of a 50% stock dividend by Ranchers in 1983, and the conversion of each Ranchers' stock option and share of stock to 1.55 shares of Hecla stock pursuant to a pooling of interests in 1984.

All of the Hecla stock options were granted in tandem with a corresponding number of stock appreciation rights. These rights entitle the recipient to payment for the increase in the market value of the stock, above the option price, at the date of exercise. Half of this payment is to be made in cash and half in the form of newly issued common stock. The exercise of either rights or options serves to cancel the other.

13. **Supplementary Information on Effects of General Inflation and Changing Costs (Unaudited):**

In an effort to display the impact of inflation on a business enterprise, corporations are required to present selected historical cost information adjusted for changes in specific costs (current cost information) or for general inflation. As a result of the Company's merger with Ranchers, it was first required to disclose this information in 1985.

The restatement of properties, plants and equipment is based on indexing historical amounts reported on the Company's balance sheet. The Company believes that because of the unique nature of its mineral reserves, the current cost of finding similar reserves cannot be determined. Because only historical costs are deductible for income tax purposes, the current cost computations exclude any adjustments to the amount of income tax expense reported in the historical cost financial statements. Net assets at year-end is a restatement of shareholders' equity, as reported in the primary financial statements, to reflect the excess of current cost amounts for inventories, properties, plants and equipment over the respective historical dollar amounts.

Financial Information Adjusted for General Inflation and Changing Costs
For the Year Ended December 31, 1985 (Unaudited)
(In Thousands Except Per-Share Amounts)

	Historical Dollars as Reported	Adjusted For Current Costs
Sales of concentrates and products	$ 79,434	$ 79,434
Operating costs and expenses	62,279	62,046
Operating income	17,155	17,388
Interest and other income	3,145	2,870
	20,300	20,258
Other expenses:		
General and administrative	5,972	5,972
Exploration	8,744	8,744
Depreciation, depletion and amortization	13,764	16,630
Interest and commitment fees	489	489
Total other expenses	28,969	31,835
Income (loss) before income taxes	(8,669)	(11,577)
Provision for income taxes	249	249
Income (loss) from continuing operations	(8,918)	(11,826)
Income from discontinued operation	4,694	4,694
Net income (loss)	$ (4,224)	$ (7,132)
Purchasing power gain on net monetary items		$ 51
Increase in current cost of inventories and properties, plants and equipment held during the year		$ 3,374
Less effect of increase in general price level		(4,420)
Change in current cost over (under) change in the general price level		$ (1,046)
Net income (loss) per share:		
Continuing operations		$ (0.44)
Discontinued operation		0.17
		$ (0.27)
Net assets at year-end		$158,656
Average Consumer Price Index (1967 = 100)		322.2

Historical Information
For the Years Ended December 31,

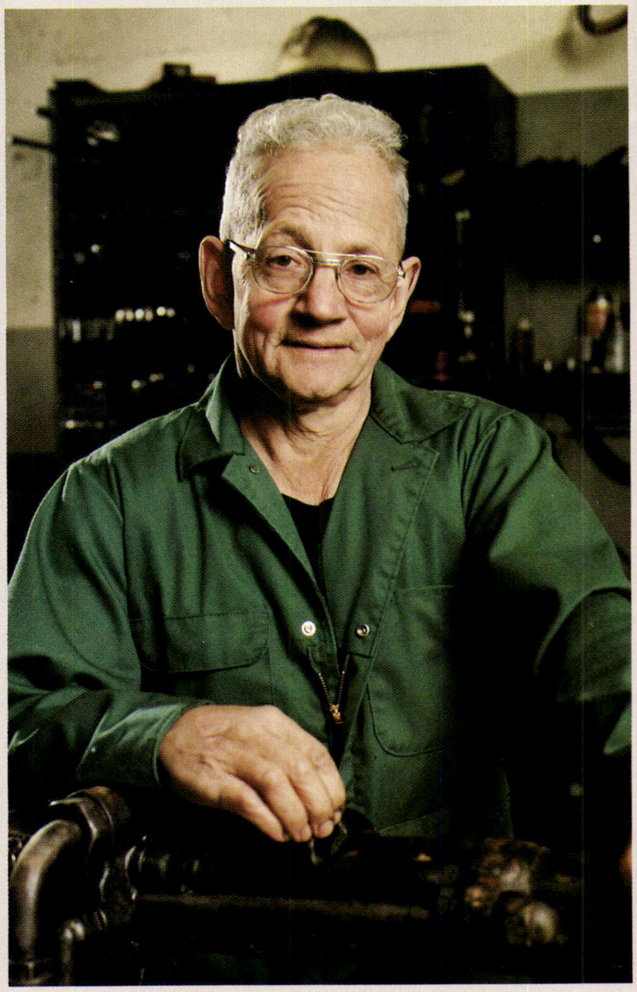
	1985	1984	1983	1982	1981
Sales of concentrates and products	$ 79,434	$109,480	$139,049	$ 91,072	$ 93,639
Dividends per share	$ 0.20	$ 0.20	$ 0.17	$ 0.03	$ 0.22
Common stock price at year-end	$ 13.75	$ 13.63	$ 18.75	$ 18.38	$ 11.13

14. Quarterly Data (Unaudited):

Selected unaudited quarterly data for the years ended December 31, 1985 and 1984 are as follows (in thousands except for per-share amounts):

	1985				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales and other operating revenue	$ 20,185	$ 23,286	$ 21,575	$ 17,533	$ 82,579
Operating income	$ 2,635	$ 6,169	$ 5,329	$ 3,022	$ 17,155
Income (loss) from continuing operations	$ (4,098)	$ 140	$ (1,084)	$ (3,876)	$ (8,918)
Income from discontinued operation	1,410	1,410	1,874	—	4,694
Net income (loss)	$ (2,688)	$ 1,550	$ 790	$ (3,876)	$ (4,224)
Net income (loss) per share:					
Continuing operations	$(0.15)	$ 0.01	$(0.04)	$(0.15)	$(0.33)
Discontinued operation	.05	.05	.07	—	0.17
	$(0.10)	$ 0.06	$ 0.03	$(0.15)	$(0.16)

	1984				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales and other operating revenue	$ 36,913	$ 33,146	$ 21,512	$ 22,179	$113,750
Operating income	$ 13,776	$ 13,883	$ 6,303	$ 3,250	$ 37,212
Income (loss) before extraordinary credit	$ 3,939	$ 20,487	$ (10,616)	$ (6,181)	$ 7,629
Extraordinary credit (charge)	350	2,437	(1,138)	1,968	3,617
Cumulative effect of change in accounting for supplies inventory	846	—	—	—	846
Net income (loss)	$ 5,135	$ 22,924	$ (11,754)	$ (4,213)	$ 12,092
Net income (loss) per share:					
Before extraordinary credit	$ 0.15	$ 0.76	$(0.40)	$(0.23)	$ 0.29
Extraordinary credit	0.01	0.09	(0.04)	0.08	0.13
Cumulative effect of change in accounting for supplies inventory	0.03	—	—	—	0.03
	$ 0.19	$ 0.85	$(0.44)	$(0.15)	$ 0.45



To most folks, the "doctor" is someone to visit when an ache or pain needs some attention, but at Hecla the doctor is Les Thomas. "Drill doctor," that is. Les works at the Star Shop near Burke, Idaho, and his care is reserved for the jackleg drills so critical in underground mining. Les is especially important to Hecla's success because of his skill as a mechanic, but he is also special for another reason. He hired on nearly 40 years ago, right after doing service in World War II, and is Hecla's senior hourly employee.

Lucille Zanetti is special too. Born and raised in the Silver Valley of northern Idaho, she came to Hecla in 1943, and is the Company's senior employee. She started in the secretarial pool and has held positions in shareholder relations and personnel, and has been payroll supervisor for the past 10 years. But she has been best known over the years as the friendly face behind the pay window.

OUR PEOPLE....

....We appreciate the efforts of the people pictured in this Annual Report, and the rest of the crew as well. Hecla's success depends on its people....

Corporate Information

OPERATIONS

Escalante Unit - Enterprise, Utah
Edward H. Hahne - Manager

Lucky Friday Unit - Mullan, Idaho
Ralph R. Noyes - Manager

Republic Unit - Republic, Washington
Ronald R. Short - Manager

SUBSIDIARY COMPANIES

Colorado Aggregate Company of New Mexico - Blanca, Colorado
Robert W. Oringdulph - President

Kentucky-Tennessee Clay Company - Mayfield, Kentucky
Ralph E. Rhodes, Jr. - President

HECLA MINING COMPANY

Incorporated under the laws of the State of Delaware

6500 Mineral Drive
Box C - 8000
Coeur d'Alene, ID 83814
Phone 208-769-4100
Telex 326476

Transfer Agent and Registrar
Manufacturers Hanover Trust Company
Bank Window
Church Street Station
New York, New York 10015

Shares of the Corporation are traded on the New York Stock Exchange, and the Pacific Stock Exchange. The Hecla Trading Symbol is HL

DIRECTORS

ARTHUR BROWN (1)
Executive Vice President Hecla Mining Company

FRED E. BURNET (1) (4)
Retired Chairman and Chief Executive Officer Cominco Ltd; Director Pacific Hide and Fur, Inc.

JOHN E. CLUTE (1) (5)
Senior Vice President, Human Resources and General Counsel Boise Cascade Corporation

JOHN M. DAHL (2) (5)
Consultant; Retired Vice Chairman and Chief Executive Officer J. R. Simplot Company

LELAND O. ERDAHL (2) (3)
Consultant; former President Ranchers Exploration and Development Corporation; Trustee, Freedom Investment Trust

WILLIAM A. GRIFFITH (1)
Chairman of the Board, President and Chief Executive Officer Hecla Mining Company

RICHARD J. STOEHR (4) (5)
Mining Engineering Consultant; Retired from Homestake Mining Company 1985; Former Senior Vice President Homestake Mining Company

NORMAN VISNES (2) (3)
Consultant; Retired Vice President - Mining ASARCO Incorporated

W. BURNEY WARREN (3) (4)
Retired President El Paso Company; Director Texas Commerce Bank-West

(1) Member of Executive Committee
(2) Member of Finance Committee
(3) Member of Audit Committee
(4) Member of Directors Nominating Committee
(5) Member of Compensation Committee

OFFICERS AND MANAGEMENT STAFF

CORPORATE HEADQUARTERS - Coeur d'Alene, Idaho

William A. Griffith - Chairman of the Board, President and Chief Executive Officer
Arthur Brown - Executive Vice President
William J. Grismer - Senior Vice President, Secretary
Gene K. Ealy - Vice President - Exploration
Robert H. Wallace - Vice President - Controller
Elmer L. Bierly - Manager of Investor and Public Affairs
Thomas T. Giles - Treasurer
Michael P. Gross - Manager - Metal Mines
Ronald B. Kahler - Manager - Technical Services
Roger A. Kauffman - Manager - Industrial Minerals
Jon T. Langstaff - Personnel Manager
Ned M. Tower - Manager - Marketing
Michael B. White - Assistant Secretary
David F. Wolfe - Assistant Treasurer

This page is a reference page used to track documents internally for the Division of Oil, Gas and Mining

Mine Permit Number M0210054 Mine Name Escalante Silver
Operator Hecla mining Co Date January 31, 1985
TO ______ FROM ______

__CONFIDENTIAL __BOND CLOSURE __LARGE MAPS X EXPANDABLE
__MULTIPUL DOCUMENT TRACKING SHEET __NEW APPROVED NOI
__AMENDMENT _OTHER ______

Description YEAR-Record Number

__NOI X Incoming __Outgoing __Internal __Superceded

1985 Annual Report

__NOI __Incoming __Outgoing __Internal __Superceded

__NOI __Incoming __Outgoing __Internal __Superceded

__NOI __Incoming __Outgoing __Internal __Superceded

__TEXT/ 81/2 X 11 MAP PAGES __11 X 17 MAPS __LARGE MAP

COMMENTS: ______

CC: ______